

COUNTY OF ORANGE
BOARD OF SUPERVISORS

INTERNAL AUDIT DEPARTMENT

**2005 Recipient of the Institute of Internal Auditors
Award for Excellence**

Integrity ♦ Objectivity ♦ Independence

2006 BUSINESS PLAN



DATE: March 21, 2006

Peter M. Hughes, Ph.D., CPA, CIA, CFE, CITP
Director of Internal Audit

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INTERNAL AUDIT DEPARTMENT
2006 BUSINESS PLAN

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Letter from the Director

Dear Readers,

It is my pleasure to provide the fiscal 2005 Business Plan for the Internal Audit Department.

This Business Plan provides summary information about the Internal Audit Department and how it operates.

As we disclose in our business plan, the IAD produces a wealth of reports that become part of the public record as well as being available on the internet. We produce monthly reports included in the Board's agenda. In addition, we facilitate the Audit Oversight Committee on a quarterly schedule to have them approve the annual audit plan and review our quarterly progress in completing the plan.

The IAD is a dynamic department and a valuable resource to the Board and the County.

I encourage you to explore our business plan. If you have questions or comments, please feel free to contact us.

Sincerely,

Peter Hughes, Ph.D., CPA
Director

EXECUTIVE SUMMARY

The Internal Audit Department (IAD) provides a variety of audit services to its primary client, the Board of Supervisors. The Board members share the elected responsibility and accountability for the financial stewardship of the County. Another significant recipient of our audit services is County Executive Management, which includes both elected and appointed department heads. The department heads working together with the CEO have the responsibility for the day-to-day fiscal and functional operation of the County departments and agencies. In addition, our published audit reports are public information and are posted and available on the Internet. Our audit reports are being read by various Federal and State regulatory agencies, the Orange County Grand Jury, the media, the investment community, and the public at large.

Vision Statement: Our vision is to maintain integrity, objectivity, and independence in all our audits and audit reports; as well as, in other services provided to the Board of Supervisors and County management.

Mission Statement: The mission of the Internal Audit Department is to provide reliable, independent, objective evaluations and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

We support and assist the Board of Supervisors and County Executive Management in the accomplishment of their functional business goals and objectives. Our contribution to this effort is testing and reporting on their internal control systems and processes. County executive management is responsible for establishing and maintaining these control processes because they must rely on these systems and processes in managing their complex organizations. These systems and processes are used for safeguarding the County's assets and resources, for reasonable, prudent, and effective financial stewardship and for accurate recording and reporting.

The IAD is recognized for our internal controls expertise. We apply this expertise in assisting County Executive Management in enhancing its business processes and constantly improving and strengthening the internal control environment the public expects, relies upon, and demands of its government. We are committed to a process of continuous learning and improvements within our department. We keep ourselves updated on relevant issues in business and industry with regard to accounting trends and developing financial best practices. Such constant renewal keeps the IAD and its staff professionally current, refreshed, invigorated, and responsive to the County's needs for attestation, compliance assurance, accountability testing, and business improvement. We assist management in helping to implement best business practices with regard to internal control, accounting systems and processes.



To meet our clients' expectations for integrity, objectivity, and independence and for us to function effectively with consistent reliability and credibility, the IAD applies professional auditing standards to all engagements. This allows us to ensure reviews and assessments of County operations are always informative, accurate, and objective. Where required, the IAD follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO). Moreover, the quality of IAD operations is regularly and independently assured by rigorous peer reviews conducted by outside CPA firms. We passed three such quality reviews to date; the last in 2004 being the most extensive quality review conducted outside the jurisdiction of the GAO. The next quality review is now being planned for 2007. As further validation of our department's commitment to quality, we received the IIA's "Award for Excellence" in 2005.

Our Business Plan goals are consistent with our annual Audit Plan because our role within Orange County is limited and well defined. Our annual Business Plan is reviewed by the CEO's Office and our Audit Plan is submitted, discussed and approved each fiscal year by the Audit Oversight Committee (AOC). Our annual Audit Plan is challenging to complete, but it does include some flexibility to be responsive to the Board of Supervisors. At times, they request audit services during the year and we have hours reserved for this purpose. In 2005, we converted our annual Audit Plan from a calendar year basis to a fiscal year basis, to better synchronize with the budget and business plan. To accommodate this transition, we expanded our 2005 budget plan by six months for a total of eighteen months to cover the period 1/1/05 to 6/30/06.

Our Audit Plan has as its core the traditional internal audits of "hard-control areas" such as segregation of duties, limiting access to cash, and accurate originating accounting entries and transactions. Examples of such traditional audits in our Audit Plan include those audit categories identified as Financial Audits and Mandates (FAM), Internal Control Reviews (ICR), and Information Technology Audits (IT). These reports contain opinions regarding the status of internal controls or the County's compliance with grant or other governing provisions. Our reports often include recommendations to management regarding improvements to specific accounting processes and internal controls in order to enhance or strengthen them. As part of our improvement process, we distribute a customer survey with each of our audit reports to allow customer evaluation and feedback.

We are now including in our audits steps for testing the economy and efficiency of operations and our reports now, where applicable, contain recommendations related to economy and efficiency enhancements. In addition, we are adding an audit area called Performance Measure Validation to our Audit Plan this year. These reviews will validate the performance measures included in the annual business plans produced by the County departments. The audit recommendation follow-up process was recently enhanced and is now a robust and mature process. Based on our follow-up audits, we can state that County management substantially implements our recommendations on a timely basis. We attribute this level of management cooperation to the partnership we have created with County management.



For the year 2005, we successfully met our two key outcome measures. Our audit efforts and the diligence and responsiveness of County management contributed to the achievement of these measures. Our two key outcome measures were successful last year because:

- The County had no defalcation or reported cash losses material to the County.
- A high percentage of clients reported they received information and/or recommendations that were timely and helpful to them in safeguarding the County's assets and making business decisions. With few exceptions, our control recommendations are addressed by management and the majority implemented.



VISION, MISSION AND GOALS

Vision

Our vision is to maintain integrity, objectivity, and independence in all our audits and audit reports; as well as, in other services provided to the Board of Supervisors and County management.

Mission

The mission of the Internal Audit Department is to provide reliable, independent, objective evaluations and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

We support and assist the Board of Supervisors and County executive management in the realization of their specific business goals and objectives. Our contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes. County executive management relies on these systems and processes for safeguarding the County's assets and resources, for reasonable, prudent, and effective financial stewardship, for accurate recording and reporting, and for achieving the County's stated goals and objectives.

Goals

Internal Audit continues to have the same two fundamental strategic goals. The two strategic goals are as follows:

1. We assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely information and relevant analysis and information for its business and financial decisions.
2. We maintain integrity, objectivity, and independence and provide professional internal audits, assurance and attestation services, and corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and financial and business operations through our public audit reports and reviews.

We incorporate these Business Plan goals into our annual Audit Plan as well. Our Audit Plan is submitted, discussed, and approved each fiscal year by the Audit Oversight Committee (AOC). At the same time, we plan enough flexibility into the audit plan to respond to the Board of Supervisors' requests for audit services.



I. OUTCOME INDICATORS AND REPORTING

Outcome Indicator	FY 04-05 Results	FY 05-06 Plan	FY 05-06 Anticipated Results	FY 06-07 Plan	How are we doing?
Defalcations of County Resources What: Defalcations are reported cash losses in County departments or agencies for varying reasons. Why: Defalcations bring bad publicity and weaken public confidence in County operations.	The County did not have a material defalcation or cash loss	The County should not have a material defalcation or cash loss	The County should not have a material defalcation or cash loss	The County should not have a material defalcation or cash loss	We are on track to achieve our goal and we submit quarterly reports to the AOC reflecting cash loss activity.
Usefulness of reports and client satisfaction. What: Measures the value of our report product by the implementation of recommendations. Why: A high percentage of clients reported they received timely information that was helpful to them in safeguarding the County's assets and in making business decisions.	With few exceptions, management implemented IAD control recommendations. Overall IAD received positive customer feed back.	Prepare and submit Follow-Up status report for Quarterly Audit Oversight Committee meetings. Maintain customer surveys and high-level satisfaction rating.	With few exceptions, we expect management to implement IAD control recommendations. Overall IAD anticipates positive customer feed back.	Maintain Follow-Up report status for Quarterly Audit Oversight Committee meetings. Maintain customer surveys and high-level satisfaction rating.	With few exceptions, our control recommendations are addressed by management and implemented. We continue to receive positive customer feedback.



II. OPERATIONAL PLAN FOR EACH GOAL

We made the following commitments to accomplish each of our Business Plan goals and our Audit Plan coverage for fiscal 2006:

- We will complete all audits mandated by State law, as well as any audits required by the provisions of contracts and grants.
- We will conduct a Countywide Risk Assessment annually to include personalized contacts with the executive management of selected county departments to identify high risk areas in their respective department or agency. We will determine part of our annual audit coverage based on the results of our risk assessment.
- We will provide assessments of critical business functions by conducting Internal Control Reviews and Information Technology Audits.
- We will follow-up on all audit recommendations until every recommendation is satisfactorily implemented, remediated, or no longer valid.
- We will contract with external sources for specialized audits, information technology, and other types of professional expertise to extend, complement and train our audit staff, or to provide expertise we do not have internally. However, currently we do not have budgeted resources available to contract such services.
- We will conduct a customer satisfaction survey on each audit engagement.

III. CLIENTS

The Internal Audit Department reports directly to the Board of Supervisors, our primary client. The Board of Supervisors share in the elected responsibility and accountability for financial stewardship of the County. As a direct report to the Board, the Director of Internal Audit submits to the Board in public forum a monthly summary of all audit reports issued for the prior month. This formal communication to the Board allows for more detailed discussions of audit reports and issues in the public setting. The heightened level of exposure requires oral and written presentations and supporting documents.

Another important recipient of our audit services is County executive management. County executive management has the sole obligation and responsibility for establishing and maintaining the County's systems of internal control. Our work provides County executive management with professional and independent validation and feedback on how well their internal controls are working, and we make recommendations on how to improve their internal controls.



This support role played by internal auditing within any organization is expressed well by the following seminal definition from the Institute of Internal Auditors:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The County governmental environment is different from that of a typical commercial organization in a number of ways. Although in size of operations, the County business environment is similar to large commercial firms, the business diversity of the County is however, much more complex given our mandated responsibilities. County executive management also has a public stewardship responsibility where all activities and reports have a concerned public audience both as fund providers, recipients, and participants in this process.

An important factor as to why the IAD functions so well is our organizational independence from the business units we audit within the County. Functional independence allows us to be forthright and candid in reporting findings and recommendations resulting from our audits. Our audit reports are filed with the Clerk of the Board and are thereby made part of the public record. Monthly Summary Reports submitted to the Board also present and summarize the audit activity. Our audit reports are also available on the Internet in order to further promote the public expectation of transparency in government. We have a goal to complete all financial and mandated audits on time and to finish 90% or more of our audit plan. The audits for FY 05-06 are on track to reach this goal.

We follow rigid professional ethics and specific quality and performance standards in conducting our work. We benchmark with other California counties and the Sarbanes-Oxley Act to obtain Best Business Practices information which may be applicable to the County. Consequently, any reader or user of our published reports is the recipient of a quality-assured product and is able to rely on our opinions and conclusions. The readers or users of our reports include the County Board of Supervisors, executive management, the general public, the media and news organizations, the investment community, third party grantors who use our audits for compliance assurance, and external auditors who use our reports in assessing internal controls and financial statement information. We have included in Appendix F to this document further history of the uniqueness of the Orange County Internal Audit Department and how it became an independent department; as well as, further detail on the importance of organizational internal controls and professional standards.



In addition we report to the Audit Oversight Committee (AOC), which is an advisory committee of the Board of supervisors. The AOC provides executive oversight and guidance to the internal audit function. The membership of the committee includes the Chairman and Vice-Chairman of the Board of Supervisors, the Auditor-Controller, the County Executive Officer and one member from the private sector appointed by the Board, and the Treasurer Tax-Collector as an Ex-Officio (non-voting) Member. We meet, discuss, and report our progress on the Audit Plan to the AOC on a scheduled quarterly basis and more often if issues or events require it. In addition, we advise the AOC about all the audits conducted by independent, state, and federal auditors auditing the County's programs to make sure they are aware of these activities. We also review these external audits to ensure we do not duplicate them in our work.

IV. RESOURCES AND CHALLENGES

No business environment is without challenges and the strength of any organization is its ability to meet challenges head on and develop appropriate strategies and solutions for dealing with the challenges. We have designed our Audit Plan to include variety and flexibility. We recognize that there may arise scheduling conflicts or higher priorities during the year and as such respond to these factors with proposals to the Audit Oversight Committee (AOC) for alternative projects. Once reviewed by the AOC, these projects and revised audit budgets become our "new" priorities.

An interesting statistic developed this year is that for the past six years, the IAD has identified, reported on, and secured recommended actual revenue recoveries or revenues recoverable that have exceeded our budget by a significant factor each and every year. We do not view revenue recovery as a strategic goal or as a measure for the department. However, we are proud of the job we have done in this area and the revenue recoveries bear witness to our success in directly contributing to the County's "bottom line".

The IAD does not have the flexibility to manage decreases to its budget without directly affecting our level of service. Reductions in budget result directly in reductions to the services we provide and consequently, the number and scope of our audits would be reduced.

We are, however, a general fund department with almost 100% of our costs considered net county cost. We have little possibility of generating revenue or being reimbursed for our work. What we can save on our approximate \$2 million dollar annual budget is minimal, and the only way we can truly reduce costs is to eliminate staff. We have limited flexibility because over 92% of our costs are salary and personnel related. The balance of our budget (about 8%) is spent on operating costs.



Two challenges are a constant for the Internal Audit Department each year:

- A. The dynamic financial environment of the County: This includes managing the decreased revenues caused by State deficits. Such an environment requires some flexibility in the annual Audit Plan approved by the Audit Oversight Committee. As part of the flexibility in the Audit Plan, the IAD must also be ready to respond to unscheduled assignments from the Board of Supervisors majority. We estimate the Board of Supervisors required hours for such reviews based on history, and reserve hours in the Audit Plan specifically for this purpose.
- B. Staff retention, turnover, and replacement: Because the IAD is a small department, each of our staff is significant to the accomplishment of the Audit Plan. Because of budget issues in the Strategic Plan, we are being forced to eliminate one audit staff position. The addition of IT audits and Performance Measure Validation reviews as requested by the Audit Oversight Committee expanded our range of audit services. Therefore, our only alternative for staffing these new reviews is by reducing the hours assigned to other audit areas such as internal control reviews.

In 2004, the Internal Audit Department implemented the new performance and compensation package (MAP & EMAP) training for managers. Two of our managers have already participated in the Leadership Academy initiated by the County. The IAD is committed to supporting EEO, PIP, LEAD, MAP and EMAP as County of Orange initiatives. Managers and Supervisors accomplish these Human Resource Department directives by meeting with staff and the Director of Internal Audit to address PIP, and EMAP goals and answer questions and concerns. The IAD feels this collaborative process will ensure that both the department's goals and individual goals are consistent. The Labor Management Committee (LMC) is an active part of our management structure and two of our employees are represented on the LMC for Auditor-Controller/Internal Audit. One is a general unit member who is also a team leader and one is a management representative. This committee meets regularly to discuss workplace issues and countywide cost savings ideas the Spotlight Employee Recognition Program was implemented as well as the leadership phase of LEAD.

Information Technology (IT) Issues

The pace of technological advancement in this area and the benefits to be realized by implementing these advances to improve County business operations is increasing at an accelerating speed. The IAD implemented an Information Technology (IT) audit process as a complement to the audits we conduct in Financial Audits and Mandates (FAM) and Internal Control Reviews (ICR) because Information Technology issues are now so important to the County and becoming ever more so.



V. STRATEGIES TO ACCOMPLISH GOALS, OUTCOME INDICATORS AND MEASURES

Operational Strategies to Accomplish Our Goals:

We support and assist County management and their business goals and objectives. Our contribution is testing and reporting on the effectiveness of their internal control systems and processes as these relate to safeguarding the County's assets and resources, prudent and reasonable financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

Because our activities are focused and integrated into the annual Audit Plan, we did not separate the activities and match them to either of the two goals because all our activities support both objectives at the same time.

The table below summarizes the professional activities we accomplish and areas we cover annually, as well as the expected intermediate outcomes and measures. The majority of our activities are summarized in the following areas:

- Develop and conduct an annual Audit Plan based on a comprehensive risk assessment.
- Keep the Board of Supervisors, AOC, and County executive management informed of audit issues. Submit monthly audit activity summary report to the Board of Supervisors.
- Follow a recognized internal control framework (COSO).
- Follow professional standards issued by the IIA, GAO, and AICPA, ISACA, as applicable.
- Instruct and train County Executive Managers on their ownership of and their responsibility for maintaining effective internal controls.
- Encourage professional certifications for staff.
- Develop and train audit staff and help them maintain their certifications.
- Apply EMAP, MAP, and PIP as directed by County H/R.

STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
Conduct the annual Risk Assessment as the basis for the Audit Plan. Develop and complete the Annual Audit Plan as approved by the Audit Oversight Committee.	All financial and mandated audits will be completed within the mandated timeframes. The annual Audit Plan will be completed at a level of 90% or better.
Reassess and modify future Annual Audit Plans based on changes to the Risk Assessment and the results of audits. Direct audit resources to "high risk" areas.	Audit recommendations from all audits will be followed-up. We will conduct the first follow-up audit beginning after 6 months, and then proceed to a second follow-up beginning after 12 months. After that any unresolved issue is brought to the attention of the AOC.



STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
<p>Keep the Board informed of emerging issues as these come to the attention of the IAD, including those not specifically identified through the audit process.</p> <p>Provide information to the Board and County management regarding both the adequacy and integrity of key controls over their business systems.</p>	<p>The Audit Plan is modified annually based on the results of audits conducted and the risk assessment process results.</p> <p>Each member of the Board of Supervisors will be briefed on audit matters monthly. The Director of Internal Audit will also submit monthly reports as part of the Board agenda. Board EA's will be briefed monthly to increase awareness of audit issues.</p> <p>All quarterly Audit Oversight Committee meetings will be fully supported by the IAD including: (a) preparation of agendas, minutes, distribution of same and exhibits and documents beforehand, (b) submission of status reports of on-going audits for each meeting, (c) briefings as appropriate on audit issues and findings.</p> <p>We will ensure that departments report external audits that include significant findings, to the Audit Oversight Committee, pursuant to the AOC Administrative Procedure No. 2. IAD will compile the information gathered from the departments quarterly, and will summarize any significant findings and brief the AOC.</p> <p>All audit reports will be distributed to the Board Members, Grand Jury, AOC Members, and formally to the Clerk of the Board, pursuant to AOC Administrative Procedure No. 1.</p>
<p>As required by Government Code 1236, complete all audits in compliance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.</p>	<p>Each audit assignment will be internally reviewed for compliance with the Institute of Internal Auditors standards and this review will be documented in the audit working papers (using a quality assurance checklist) for every audit completed.</p>

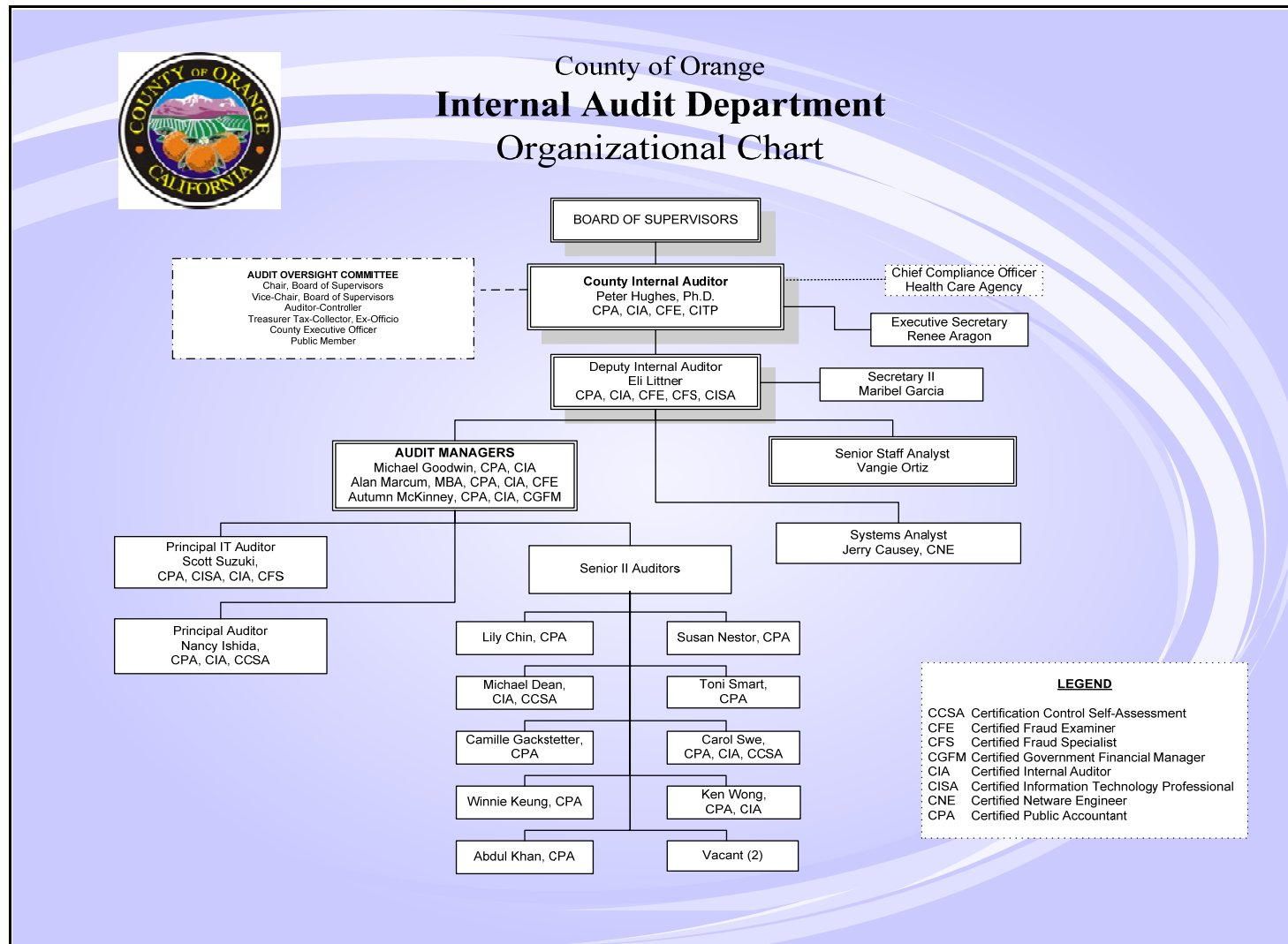


STRATEGIES AND PLANS TO ACCOMPLISH GOALS	OUTCOMES AND MEASURES
Ensure all Financial Audits resulting in an opinion conform to the audit standards of the American Institute of Certified Public Accountants.	Every three years, IAD will undergo a quality review to obtain independent assurance of our compliance with the IIA standards. In 2001, we underwent a quality review that concluded we are in compliance with IIA standards. We completed two further quality reviews in 2004. Both concluded the department complied with all professional standards relating to internal audit and in many areas was a model for how an internal audit department should operate. Our next quality review will be scheduled in 2007.
Provide training opportunities and reimbursement to staff for professional development and to meet certification requirements.	Each auditor will complete and document at least 40 hours of continuing professional education training.
Effectively implement, establish, promote and monitor the Performance Incentive Program (PIP) and the Management Appraisal Program (MAP).	Managers and Supervisors will accomplish this by meeting with staff and the Director of Internal Audit to address PIP and MAP goals and answer questions and concerns. Internal Audit feels this collaborative process will ensure that both the department's goals and objectives and individual goals are consistent.



VI. APPENDICES

A. Organizational Chart



B. Management Team

The management team of the Internal Audit Department lead a dynamic valuable program with highly trained and credentialed, seasoned professionals. As a small department, each team member is vital to the success and ongoing progress of the department. Their accumulated professional experiences from within and outside the County balance the programs they oversee.

The Internal Audit Department Management Team consists of the following:

Director, Peter Hughes, Ph.D., MBA, CPA, CIA, CFE, CITP
Deputy Director, Eli Littner, CPA, CIA, CFE, CFS, CISA
Audit Manager, Michael Goodwin, CPA, CIA
Audit Manager, Alan Marcum, MBA, CPA, CIA, CFE
Audit Manager, Autumn McKinney, CPA, CIA, CGFM
Senior Staff Analyst, Vangie Ortiz
Executive Secretary, Renee Aragon

C. Labor Management Committee (LMC)

The Internal Audit Department LMC Members are:

Senior Staff Analyst, Vangie Ortiz
Systems Programmer/Analyst, Jerry Causey

D. Business Plan Team

The Internal Audit Business Plan Team consists of the following:

Director, Peter Hughes, Ph.D., MBA, CPA, CIA, CFE, CITP
Deputy Director, Eli Littner, CPA, CIA, CFE, CFS, CISA
Audit Manager, Michael Goodwin, CPA, CIA
Audit Manager, Alan Marcum, MBA, CPA, CIA, CFE
Audit Manager, Autumn McKinney, CPA, CIA, CGFM
Senior Staff Analyst, Vangie Ortiz
Executive Secretary, Renee Aragon



E. Accomplishments

All financial and mandated audits were completed within the mandated timeframe. The 2005 Audit Plan will be completed at a level of 90% or better.

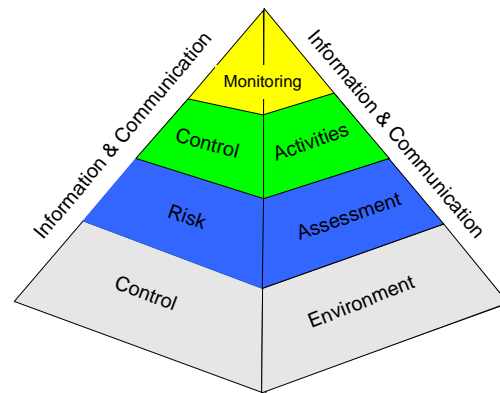
F. Department Background

Brief History of the Internal Audit Department after the Orange County Bankruptcy

The Internal Audit Department was established as a separate independent department and removed from the County Auditor-Controller by Board Resolution 95-271, dated April 25, 1995. The Internal Audit Department's initial duties were to perform all audits required by Government Code Section 25250 including the biennial audits of County officers. The County Auditor-Controller previously performed these audits. In addition, the County Auditor-Controller chose to contract with the new Internal Audit Department to have them perform certain audits on his behalf. These audits include periodic audits of the Probation Department (Welfare and Institutions Code Section 275), and the quarterly verifications of assets in the County Treasury (Government Code Section 26923).

Auditing County Internal Controls Using a Standard Framework

We perform our services incorporating the nationally recognized Committee of Sponsoring Organizations (COSO) control framework. This standardized framework provides definitions and clearly makes organization management responsible for implementing and maintaining internal controls.



Roles and Responsibilities of Internal Control

Management is solely responsible for establishing and maintaining internal controls in their departments/agencies. This means that management is responsible for identifying the business and operational risks that could prevent them from achieving their business objectives. Management must make sure that appropriate internal controls (policies and procedures) are in place to prevent, detect, and mitigate those risks. Management is also responsible to consistently monitor their internal controls and make sure that controls are still working as originally designed and to determine whether business risks have changed and new internal controls or processes are required.



The internal control elements of the framework are depicted in the above diagram, and are described below:

Control Environment. The control environment sets the tone of the organization from the top down. That is one of the primary responsibilities of executive management. The control environment includes the vision of the organization, integrity, strong ethical values, hiring competent personnel, appropriate delegation of authority and responsibility, and developing staff. The control environment is the foundation for the control elements higher in the pyramid.

Risk Assessment Each County department faces a variety of business and operational risks both from external and internal sources. Such risks are assessed in the risk assessment process. This process is the identification and analysis of relevant risks to the achievement of business objectives and forming a basis for determining how the risks should be addressed and managed.

Control Activities Control Activities are the policies and procedures that help ensure that necessary actions are taken to address the identified risks. They include a range of activities such as requiring supervisory approvals, reconciling bank accounts, safeguarding assets, and establishing audit trails.

Information and Communication Correct information must be identified, recorded, and communicated in a form and timeframe that staff can absorb to allow them to fulfill their organizational responsibilities.

Monitoring Internal control systems should be monitored constantly to assess whether controls are still working as designed or whether new controls are needed because the business environment changed. Monitoring involves organization management and supervision, internal and external reviews and evaluations.

Ethical Requirements

The IAD strictly complies with professional ethical requirements. These include the ethical standards of the County, the rules of ethics promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO).



Professional Auditing Standards

The IAD complies with Section 1236 of the California Government Code, which states that all county employees who conduct internal audits “. . . shall utilize the general and specified standards . . . in the publication entitled Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, Inc.” For audits requiring an opinion on the fairness of financial statements, the IAD complies with generally accepted auditing standards and generally accepted accounting principles promulgated by the Financial Accounting Standards Board, and governmental generally accepted accounting principles promulgated by the Governmental Accounting Standards Board.

Many times however, laws, regulations, ordinances, or state authorities specify the foregoing or other comparable standards with which they direct for the audit. The IAD complies with their specific direction because none of the standards are incompatible with one another. Some examples of such audits are the District Attorney Spousal Abuser Grant and the District Attorney Workers Compensation Fraud Grant that are conducted pursuant to "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions of the Comptroller General of the United States."

